

A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Status Review

Chinle Unified School District No. 24

As of September 17, 2008



Debra K. Davenport
Auditor General

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January 12, 2009

Governing Board
Chinle Unified School District No. 24
P.O. Box 587
Chinle, AZ 86503-0587

Members of the Board:

In our November 2007 compliance review report, we notified you that the District had not complied with the *Uniform System of Financial Records* (USFR) as of June 30, 2006. The District was given 90 days to implement the recommendations in our report. We subsequently performed a status review of the District's internal controls as of September 17, 2008. Our review covered the deficiencies we had previously communicated to management and deficiencies included in the District's audit reports and USFR Compliance Questionnaire for the year ended June 30, 2007. The purpose of our status review was to determine whether the District was in substantial compliance with the USFR as of the date of our review. Our review consisted primarily of inquiries and selective testing of accounting records and control procedures. The review was more limited in scope than would be necessary to express an opinion on the District's internal controls. Accordingly, we do not express an opinion on its internal controls or ensure that all deficiencies were disclosed.

We acknowledge the District's diligence in correcting its deficiencies. As a result, the District has complied with the USFR. However, we must emphasize that a number of deficiencies still exist. Recommendations to correct these deficiencies are described in this report. District management should implement these recommendations to ensure that the District fulfills its responsibility to establish and maintain internal controls and to continue to comply with the USFR. We have communicated specific details for all deficiencies to management for corrections.

Thank you for the assistance and cooperation that your administrators and staff provided during our status review. My staff and I will be pleased to discuss or clarify items in this report.

Sincerely,

Debra K. Davenport
Auditor General

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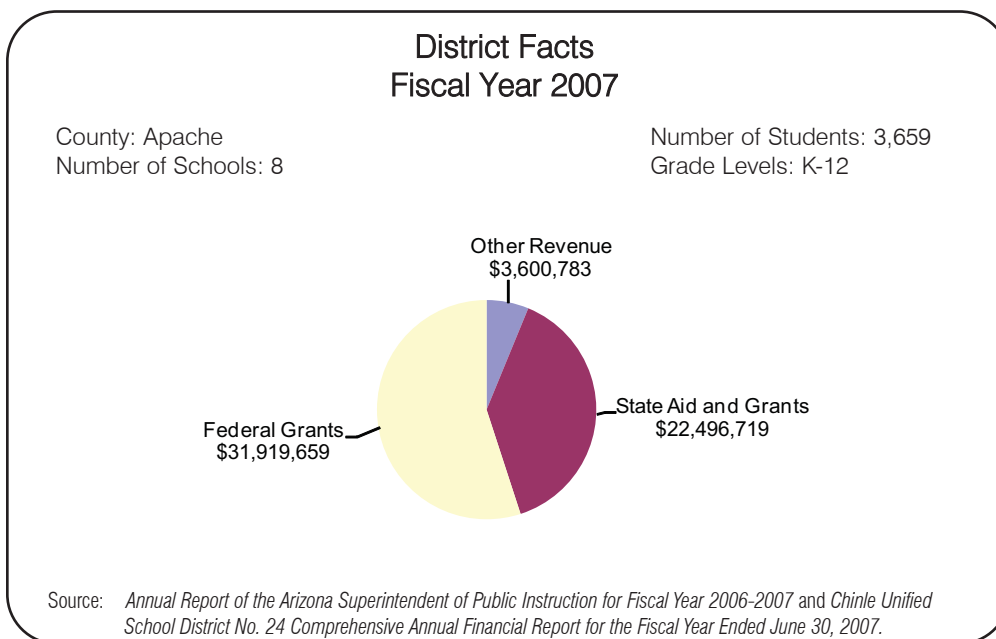
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INTRODUCTION

Chinle Unified School District No. 24 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$58 million it received in fiscal year 2007 to provide this education.

The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our status review, we determined that the District has complied with the USFR. However, we noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and continue to comply with the USFR. Our recommendations are described on the following pages.



FINDING 1

The District's controls over competitive purchasing and expenditures should be strengthened

The District did not always ensure that its purchases complied with the School District Procurement Rules.

School District Procurement Rules for competitive sealed bidding and USFR guidelines for purchases below the competitive sealed bid threshold promote open and fair competition among vendors. This helps ensure that districts receive the best possible value for the public monies they spend. However, the District did not always follow the procurement rules or the USFR guidelines, as it did not analyze the known requirements for an item or collection of items that, in the aggregate, would have required the use of oral or written price quotations, and did not always obtain oral price quotations for purchases that required them. Also, for some purchases requiring competitive sealed bids, the District inappropriately used language in the invitations for bids (IFB) that indicated price was not the only evaluation factor, and did not always maintain a bid tabulation sheet comparing the vendors' bids. Additionally, the District did not always perform due-diligence procedures for a sample of purchases made through each purchasing cooperative. Finally, the Governing Board approved a sole source purchase based on the District's incorrect description of the goods and services to be purchased from the vendor.

Also, it is essential that the District follow proper expenditure processing procedures. However, the District did not always follow such procedures as the District did not ensure purchase orders were prepared and approved before ordering goods and services. Additionally, the District did not obtain receipts from credit card users for gasoline credit card purchases. Further, the District incurred finance charges because it did not always pay credit card balances in full each month.

Recommendations

To strengthen controls over purchasing and expenditures, the District should:

Purchasing

- Determine whether to request oral or written price quotations or issue invitations for bids or requests for proposals (RFP) by analyzing the known requirements for an item or a collection of items that, in the aggregate, may result in purchases above the applicable thresholds. This analysis should be documented in writing and retained to support the District's decisions to obtain competitive price quotations or solicit bids or proposals.

- Ensure that IFBs clearly indicate that the District will select the lowest cost responsive and responsible bidder. However, if the District determines that criteria other than the lowest cost should be considered in selecting a vendor, it should document such reasons and issue an RFP.
- Review documentation for at least a sample of the contracts that the District wishes to use from each purchasing cooperative. The District should document the process used and results of the due diligence to support that the cooperative purchase was made in compliance with the School District Procurement Rules.
- Obtain oral price quotations from three or more vendors for purchases estimated to cost between \$5,000 and \$15,000, and retain documentation for all price quotations received. If three oral price quotations cannot be obtained, document the vendors contacted and their reasons for not providing quotes.
- Obtain and retain an accurate written determination from the Governing Board that there is only one source for the required material, service, or construction item for all sole source procurements. Sole source purchases should be avoided, except when no reasonable alternative source exists.

Expenditures

- Prepare and approve purchase orders prior to ordering goods and services.
- Ensure that all credit card users submit detailed receipts to support purchases. Receipts should be compared to the billing statements prior to payment and used to determine whether the charges were for appropriate district purposes.
- Process credit card payments in full by the due date to avoid finance charges and late fees.

School District
Procurement Rules
provide the requirements
for:

- Competitive sealed bids for goods and services in excess of \$33,689.
- Competitive sealed proposals for goods and services when factors other than the lowest cost are appropriate.
- Sole source and emergency procurements and other exceptions.

FINDING 2

The District should ensure the accuracy of its accounting records and supplies inventory list

The District's Governing Board depends on accurate information to fulfill its oversight responsibility. To achieve this objective, district management should ensure that its accounting records are accurate and complete and that assets are monitored and valued correctly. However, the District did not fully accomplish these objectives. Specifically, the District did not ensure its records of cash balances were reconciled to the County Treasurer in a timely manner. Also, the District did not always accurately classify expenditures in accordance with the USFR Chart of Accounts. Additionally, the District inappropriately paid employee healthcare costs from the Classroom Site Fund (CSF)—Performance Pay Fund. Further, the quantities and item costs included on the District's bookstore supplies inventory list were not always accurate, and periodic physical inventory counts were completed by an employee responsible for custody of the items and were not reviewed by another employee.

The District did not reconcile its cash on deposit with the county treasurer in a timely manner.

Recommendations

To help ensure the accuracy of its accounting records and supplies inventory list, the District should:

- Ensure that it reconciles its records of cash balances, by fund, to the County Treasurer's records each month. Reconciliations should be performed in a timely manner, and any differences noted should be investigated and resolved promptly.
- Classify all financial transactions in accordance with the USFR Chart of Accounts.
- Ensure that the CSF—Performance Pay Fund is used only for payments made to instructional staff for meeting the objectives outlined in the District's performance pay plan and for employment-related expenditures that result directly from the performance payments.
- Prepare an inventory list from the perpetual inventory accounting records at the end of each fiscal year when a physical inventory is not taken. If perpetual inventory records are maintained and inventory test counts indicate that the perpetual system is accurate, the District may take a physical inventory once every 3 years, rather than annually.

- Have two employees, not responsible for custody of the bookstore supplies inventory, count and document the quantities on hand. Another employee, who is also independent of bookstore operations, should conduct second counts on a test basis and compare costs from the inventory list to supporting documentation.

FINDING 3

The District should ensure the accuracy of its student attendance records

The State of Arizona provides funding to school districts based on membership and attendance. In turn, the State requires school districts to maintain accurate attendance records to ensure that districts receive the appropriate amount of state aid. However, the District did not always calculate partial-day absences correctly, and the District's sign-in and -out logs were not always complete and consistent with teachers' attendance recorded in the District's computerized attendance system. Also, the District did not always prepare student entry forms to support membership information.

Recommendations

To help ensure the accuracy of its student attendance records, the District should:

- Calculate absences for students enrolled in kindergarten through eighth grades, as follows:
 - For kindergarten students, if the instructional time for the year is 692 hours or more, students not in attendance at least one-half of the day should be counted as being absent. Half-day absences should not be reported for kindergarten students as attendance of at least half of the instructional time for the day is considered to be full attendance for kindergarten students.
 - For elementary and junior high students, whose attendance is based on half days, students in attendance for less than one-half of the day should be counted as absent for 1 full day; students in attendance for at least one-half day, but less than three-quarters of a day should be counted as absent for one-half day; and students in attendance for at least three-quarters of a day should be counted in attendance for a full day.
 - For elementary and junior high students, whose attendance is based on quarter days, students in attendance for less than three-quarters of the day should be counted absent for each quarter of the day not in attendance. Students in attendance for at least three-quarters of the day should be counted in attendance for a full day.

- Ensure that absences for high school students, with and without JTED classes, are calculated in accordance with the chart provided in ADE's Instructions for Required Reports based on the number of district or JTED classes the student is enrolled in and attended.
- Retain documentation to support average daily membership information reported to ADE, including accurately completed student entry forms.

FINDING 4

The District should establish procedures to document and address conflicts of interest

A.R.S. §38-503 requires that Governing Board members, officers, and employees make known any substantial interest they have in any contract, sale, purchase, or service, and refrain from voting or participating in such contract, sale, or purchase. The interest must be disclosed in writing and retained in a file exclusively for that purpose. These files are public record. However, the District did not have procedures in place to inform employees of these requirements and ensure that existing conflicts of interest with its employees and Governing Board members were identified. Additionally, the District did not document a Governing Board member's conflict related to a family member the District employed.

Recommendations

To help ensure that the District identifies and documents all conflicts of interest with its employees and Governing Board members, the District should:

- Establish procedures to notify employees and Governing Board members of the requirement to disclose conflicts of interest.
- Require employees and Governing Board members who have a substantial interest in any contract, sale, purchase, service, or decision of the District to file a conflict-of-interest statement and refrain from voting upon, or otherwise participating in any manner as an officer or employee in such contract, sale, or purchase. A.R.S. §38-502(9) defines a relative as a parent, child, sister, brother, spouse, grandchild, grandparent, mother-in-law, father-in-law, brother-in-law, sister-in-law, or stepchild.
- If an employee supervises a relative, the employee's conflict-of-interest statement should describe the relationship, and the supervisor should refrain from participating in decisions or contracts related to that relative, such as approving pay increases.